Okanagan Valley Tree Fruit Authority

Service Plan

2002/03 — 2004/05

January 2002

OKANAGAN VALLEY
TREE FRUIT AUTHORITY

A British Columbia Crown Corporation

BRITISH COLUMBIA

National Library of Canada Cataloguing in Publication Data

National Library of Canada Cataloguing in Publication Data

Okanagan Valley Tree Fruit Authority (B.C.)
Service plan. -- 2002/03/2004/05 -

Annual.
ISSN 1496-6999 = Service plan – Okanagan Valley Tree Fruit Authority

1. Okanagan Valley Tree Fruit Authority (B.C.) - Periodicals. 2. Fruit trade - British Columbia - Okanagan Valley - Periodicals. 3. Fruit - British Columbia - Okanagan Valley - Marketing - Periodicals. 4. Fruit trees - British Columbia - Okanagan Valley - Periodicals. I. Title. II. Title: Okanagan Valley Tree Fruit Authority service plan.

HD9254.C33B74 338.4'7'634'097115 C2001-960085-2

103-03823/

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Message from the Chair

The Core Review and Deregulation Task Force of the Government of the Province of British Columbia has endorsed the need for the Orchard Renovation Program and has confirmed the OVTFA mandate through to March 31,2006. This is greatly appreciated by British Columbia's tree fruit producers and other members of their industry, particularly in this time of fiscal challenge. There is both an opportunity and responsibility for our tree fruit growers to improve the profitability and the competitiveness of their operations over the next four years.

Global competition continues to intensify. Consumers continue to turn away from varieties associated with inconsistent or inferior quality. Our nearest and largest competitor, Washington State, is undergoing a major contraction and restructuring, with the loss of market support for their largest apple variety, Red Delicious. It has been estimated that between 30 to 40 per cent of the orchards in Washington State are unlikely to be profitable again, and many of these will be removed over the next several years. This will create great opportunity for those growers producing varieties favoured by the market. British Columbia's tree fruit industry can build upon its reputation as the premium producer of tree fruits such as the Royal Gala apple and Lapins cherry.

The OVTFA will continue the strong record of fiscal probity that marked its first eleven years of operation. It will ensure that public funds are used carefully and with due respect, so that both industry and the public receive maximum benefit for their investment. Our goals and objectives have been clearly set out, and we will strive to meet or exceed them.

Since 1991, approximately 6500 acres (2600 hectares) of orchard have been replanted with OVTFA assistance. During this period, the success rate and efficiency of these new plantings has increased continually, as growers build on their past experience and that of their colleagues. The newer plantings are being recognized as being among the most efficient in the world. Our focus over the next four years will be to complete a base of at least 10,000 acres (4,000 hectares) of profitable and self-sustaining orchards.

Robert F. Dawson

Chair

Organization Overview

Background

In 1990, the Report of the Commission of Inquiry – British Columbia Tree Fruit Industry documented a growing financial crisis in the province's tree fruit industry. While many BC orchards were older and producing fruit varieties that did not return the cost of production, global markets were becoming increasingly competitive, world tree fruit prices were falling, and the financial outlays involved in replanting orchards, adopting new technology were prohibitive. There was a clear need for fundamental, long-term changes to the industry.

In response to the situation and to the commission's report, the government of British Columbia created the Okanagan Valley Tree Fruit Authority (OVTFA) with a 10-year mandate to ensure an efficient and coordinated approach to the revitalization and transformation of the interior tree fruit industry.

In the fall of 1996 funding was reduced and all programs except the replant program were eliminated. In early 2000, broad consultations were carried out to help the tree fruit industry develop and refine its revitalization plan, and to bring community and local business concerns together. With the information from the consultations, and a positive review of the replant program, the OVTFA mandate was extended, through to March 31, 2006, supported by a $25 million government funding commitment.

To date, government programs have resulted in a net investment of more than $ 85 million in replant activities by farmers. A total of 6500 acres (2630 hectares) have been replanted with high-density plantings of varieties that have better rates of return.

Legislated Functions

The corporation's mandate, as stated in the *Okanagan Valley Tree Fruit Authority Act* (RSBC 1996, Chapter 339) is "to ensure an efficient and coordinated approach to the revitalization and transformation of the Interior tree fruit industry to ensure a strong, dynamic and competitive tree fruit industry."

Further, the purpose of the corporation is to:

- assist in the rehabilitation and improvement of orchard land and orchards,
- develop and operate programs to improve productivity of the tree fruit industry and the marketability of tree fruit,
- commission applied research into production and marketing,
- provide for the training of growers and farm workers, and
- subject to the regulations, assist growers, packinghouses, processors and marketing enterprises by providing advice and assistance.

Public Policy Role

The OVTFA is the lead provincial government agency responsible for the revitalization of the tree fruit industry. The Ministry of Agriculture, Food and Fisheries contribute to the success of the tree fruit industry by providing support, including risk management programs and advisory services. For the OVTFA to successfully meet its mandate, it is important that these resources are coordinated and focused in an efficient and accountable manner. While the OVTFA is the lead agency, the ministry programs are delivered independently; this coordination therefore requires effective communication and cooperation. The industry also provides resources that need to be recognized and effectively integrated into the program initiatives.

The Minister of Agriculture, Food and Fisheries and the Chair of the OVTFA have signed a Letter of Shareholder's Expectations that outlines the government's expectations and agreed-upon oversight between the government and the corporation.

Program Profile

The OVTFA encourages growers to replace older, lower-quality inefficient orchard plantings with plantings at higher densities (1000 to 2000 trees/acre vs. 200 trees/acre) of varieties favoured by the marketplace. It assists growers to adapt to changing consumer preferences, to increasing competition and to the requirement for new knowledge. It also assists growers to make the most cost-effective use of the tree fruit land base.

The major initiative of the OVTFA is orchard renovation with the main component being the Replant Program. The Replant Program provides growers with a grant covering approximately 1/3 of the cost of replanting (e.g. initial replant costs for one acre of apples is approximately $20k). Capital costs and grants for replanting soft fruit (cherries, peaches etc) are lower but are in the same ratio. Growers may receive an advance to assist with nursery stock purchases ordered 2 to 3 years prior to planting to ensure that the right nursery stock is available. In 2001, a grafting program was introduced to assist growers to upgrade orchards to higher value varieties and strains. Grafting is a cost efficient program since growers can adapt existing plantings and infrastructure to higher value varieties and strains with a lower capital outlay.

It takes up to five years for a replanted orchard to reach full production after two to three years devoted to planning including advance ordering of the required nursery stock. Accordingly, OVTFA approves replant applications before trees go into the ground (e.g. applications for 2005 are already being approved).

Approximately 6,500 acres (2600 hectares) have been replanted to-date. This represents an investment by the growers of an estimated $90 million with a government investment of approximately $30 million. By March 2006, the OVTFA intends to reach its target of 10,000 acres of renewed orchards in place to ensure the sustainability of the Okanagan tree fruit industry. To date 853, or 77%, of the approximate 1100 eligible growers have participated in the program.

The OVTFA is also the lead provincial agency for the Sterile Insect Release Program (SIR). SIR is an initiative that applies nature-friendly technology to the control of the codling moth, the tree fruit industry's most damaging pest. In the southern Okanagan, where the program is fully implemented, it has resulted in an 80% reduction in the highly toxic organophosphates sprays that are used to control the codling moth. As a measure of the programs effectiveness: ninety-six percent of harvest samples in this region have no codling moth damage. The program is beneficial to growers and urban owners of backyard trees alike. SIR is unique and is lauded internationally as an environmentally sensitive solution to a major problem.

The program was established in 1993 and is funded by a general property tax paid by all residents of the regional districts and by an acreage tax assessed on apple and pear orchards. Over the past years, the federal and provincial governments have provided additional funding. The OVTFA continues to play an important role in the implementation of the SIR program. Through participation on the Board of Directors the OVTFA inputs into the implementation decisions and monitors the program to ensure that the provincial investment is protected. The OVTFA also ensures the effective coordination of provincial government resource input.

Strategic Context - Corporate Profile

Vision

In 2006 the Okanagan Valley Tree Fruit Authority will have completed its mandate and the British Columbia tree fruit industry will have a core of profitable commercial operators making the best use of their land and resources to produce high-quality products. It will be market-oriented in both growing and processing. Growers will be motivated and equipped to meet the challenges of a rapidly changing marketplace.

Mission

The mission of the OVTFA is to enable and encourage fruit growers to renovate their industry to renewed efficiency and profitability.

Values

The operations of the OVTFA are guided by the following values:

- ***open, meaningful communications*** with industry stakeholders, the government and the public, as a prerequisite to industry revitalization
- ***partnerships and alliances*** with industry, government, and the public to build long-term revitalization solutions
- ***sustainable revitalization*** through environmentally responsible programs
- ***integrated revitalization*** that is mindful of the tree fruit industry's importance as part of the physical, social and economic structure of the B.C. Interior of British Columbia
- ***people are an important resource*** in the tree fruit industry, and must be considered in the development of all policies and programs
- ***financial stewardship*** ensures that public funds are used carefully and with due respect so that industry and the public receive the maximum benefits from available resources.

Planning Context

Current Situation

For almost 100 years, the tree fruit industry has been a driving economic and social influence in the southern Interior of B.C. A vibrant, competitive tree fruit industry is a central factor in sustaining the resource land base and overall agricultural productivity of the Okanagan, Similkameen and Creston regions.

BC's tree fruit industry operates in a global market with the production and quality of fruit from other production areas impacting grower returns. Washington State is BC's biggest competitor with apple production approximately 15 to 20 times larger. The main Washington State variety is Red Delicious. Red Delicious is rapidly losing favour with many consumers and with the loss of Asian markets to Fuji apples from China there is large overproduction of this variety. In 2000/2001 Washington State reduced it apple acreage by 10 percent or 20,000 acres. As the result of biennial bearing in 2001 production is expected to decline by 20%. Total US production is forecast to be 15% lower.

Red Delicious apples sales are also under pressure from domestic consumers who are favouring newer varieties such as Gala and Fuji. Washington State is well suited to Red Delicious production but not as well matched for many new varieties. BC's cooler climate provides a competitive advantage for many newer varieties such as Royal Gala. However, too many older inefficient orchards remain and over 25% of total production remains in Red Delicious. BC Red Delicious apples are, for the majority, not competitive with Washington State Red Delicious apples.

Soft fruit production and, in particular, cherries, are an increasingly important commodity for BC and account for 33% of total grower returns. BC is well suited to the production of late season, high quality, cherries now sold in global markets.

Key Strategic Issues

The **key strategic issues** that affect the OVTFA's ability to meet its mandate include the following:

- Current reduced grower returns from traditional varieties have a negative impact on the corporation's ability to meet the target of having industry replant 2,500 acres (1000 hectares) over the next three years. Reduced returns make it more difficult for growers to make the investment required to replant their orchards.

- Reduced grower returns also affect the ability of growers to fund the SIR program. At the same time, consumer preference for environmentally sensitive products continues to increase.

- The need to build confidence among growers and nursery stock suppliers to ensure that adequate stocks are available to support the replant program.

- More than ever, all available technical, training and marketing resources need to be coordinated and targeted to meet the needs of growers.

- Following the decision to continue its mandate, the OVTFA must continue to have in place the financial, personnel and administrative support services to enable it to achieve its mission and meet government accountability and budget transparency objectives in a timely, cost-efficient manner.

Performance Assessment Framework

Goals, Objectives, Key Strategies and Performance Measures

Orchard renovation continues as the major element in the revitalization plan for the tree fruit industry. Two things are critical to the future competitiveness of this sector: replanting older, lower-valued varieties to new varieties at high densities, and managing orchards to produce higher-quality products.

STRATEGIC GOAL: To coordinate and assist with the revitalization of the tree fruit industry into a strong and dynamic industry.

Strategic Objective 1: Improve the productivity and the economic and environmental sustainability of the orchard production base.

Key Strategy	*Performance Measure*
▪ Provide financial assistance through the effective delivery of the Replant and Grafting Renovation programs, to enable growers to replant their orchards with high-density plantings that will produce higher returns.	***Output measure*** ▪ In 2002, 700 acres (284 hectares) are replanted and growers have invested approximately $10.5 million in revitalizing their industry. ▪ By 2004/05, 2,500 acres (1000) hectares) are replanted. Growers have invested an additional $38 million in revitalizing their industry. ▪ In 2002, 100 acres (40 hectares) of orchards are renovated under the Grafting Renovation Program to higher market value varieties. ▪ By 2004/05, 500 acres (200 hectares) are renovated. ▪ The Replant Advance Program is in place and enables growers and nurseries to ensure that the required nursery stock is in place.
	Outcome measure ▪ Replanted orchards have higher returns than conventional orchards, within five years of replanting. ▪ Replanted orchards have reduced irrigation water demand and reduced or nil contribution of nutrients to receiving waters

Key Strategy	*Performance Measure*
Coordinate provincial resources to support the successful implementation of the Sterile Insect Release (SIR) Program to better position tree fruit products in the marketplace and improve the regional environment through the reduction in pesticide use.	***Output measure*** ▪ The SIR Program is fully implemented in all regions of the Okanagan, Creston and Shuswap regions by October 2002. ▪ By 2006, Organophosphate pesticide is reduced to zero from the 86,000 kg used currently.
	Outcome measure ▪ The SIR Program is in place, and marketers are able to quote, in their marketing programs, the benefits of the Integrated Fruit Production program that is possible because of the reduction in pesticides. ▪ Regional environment improved as the result of elimination of toxic pesticides.

Strategic Objective 2: The financial, personnel and administrative support services are in place to enable the corporation to achieve its mandate, provide an effective level of probity and stewardship of financial resources and meet government accountability and budget transparency objectives.

Key Strategy	*Performance Measure*
▪ Provide effective administrative services in a cost-efficient manner.	***Output measure*** ▪ The OVTFA completes its performance plans, annual reports, financial statements, and other reporting instruments on time and in a professional manner. ▪ In 2002/03 the OVTFA program delivery and administration costs are targeted to be 6% and 2% respectively of program costs.
	Outcome measure ▪ OVTFA external audits show that the corporation is meeting its probity and financial stewardship objective.

Targets and Performance Measures

The two main performance targets are:

1. Competitive and self-reliant growers not dependent on government ad hoc assistance programs. The tree fruit industry has received extensive income enhancement funding in the past. These direct government subsidies were required to

Performance Measure – reduced government expenditures on income enhancement

BC Government Tree Fruit Expenditures, 1986 – 2006

(000's Dollars)

	Average 1986 – 1990	Average 1991 - 1995	Average 1996 – 2000
Income Enhancement (MAFF)	$11.947	$5.201	$0
Income Stabilization (MAFF)	$5.802	$5.946	$ 8.506
Revitalization (OVTFA)	$0.482	$3.794	$ 4.507
TOTAL	$18.231	$14.941	$13.013

The tree fruit industry Income Enhancement and Income Stabilization programs are delivered by the MAFF and therefore not targets are not set for the 2001-2006 period. However, it is expected that expenditures will be lower than current levels reflecting, in part, the success of the orchard renovation program.

2. A value-added production base (10,000 acres of high density plantings of varieties with high market demand) capable of sustaining a viable packinghouse, processing and marketing infrastructure.

Performance Measure – Potential production from replanted acreage	
Current Apple Production	5 to 6 million boxes
Current replanted Acreage Potential Production*	3.4 million boxes
2002 to 2005 Replanted Acreage Potential Production*	3.4 million boxes
Total Replanted Acreage Potential Production*	5.2 million boxes
* based on 40,000 pounds per acre and a 90% pack-out	

Soft fruit packing and processing has increasingly been done on-farm and the new soft fruit plantings support this infrastructure.

Public Interest Principles

The Orchard Renovation and SIR programs are consistent with public interest principles because they:

A. Enhance the competitiveness and long-term viability of growers and the tree fruit industry by:

1. Addressing the 'market failure' in the apple industry due to the over production of Red Delicious apples by Washington State. The program ensures a 'competitive' future with Washington State by increasing BC grower's competitiveness and assisting to level the playing field with the subsidies provided to US growers.

    - BC's advantage is new varieties, like Gala. Washington State advantage is Red Delicious production and the size of industry (15x BC)
    - Red Delicious apples are experiencing market failure due to the loss of offshore markets and changing consumer preference

2. Contributes to necessary industry adjustment as deadline for international trade agreement on agriculture approaches.

    - new plantings assist growers in making the transition to a global economy

B. Support highly cost-effective, sustainable, and environmentally friendly use of the land base

1. Puts in place sustainable, environmentally sound resource management practices that maximize the economic use of the land base.

    - high density plantings – higher productivity
    - reduced use of irrigation water and nutrient run-off
    - reduced use of pesticides

2. The SIR program is an important part of revitalization and it is an important public interest program because it provides a modern, environmentally sensitive solution to a major problem.

    - reduces the use of toxic pesticides - organophosphate usage to-date reduced by 77% (62,000 kg/yr)
    - organophosphate pesticides usage will be eliminated by 2005
    - tree fruits produced without chemicals are also more appealing to contemporary consumers who are increasingly wary of what they eat

C. Positions BC for federal cost-sharing

1. Contributes to intergovernmental relations – the provincial contribution to the Orchard Renovation program leverages federal funds and positions BC for negotiations with the federal government for a new cost-sharing agreement post March 2003.

    - each $5 m expenditure enables BC to secure an incremental $ 8.7 m through Canada – British Columbia Framework Agreement on Agricultural Risk Management

D. Responsibly manages tax dollars through local control, performance measures and, a 'sunset' clause that terminates in 2006.

1. Encourages grower self-reliance and thereby minimizes demand for ad hoc assistance.

    - older, lower-valued varieties produce low market returns and perpetuate grower dependence on government assistance
    - since 1990 government has provided over $44m in income enhancement payments to Okanagan tree fruit growers

2. Provides the following additional benefits:

   - ensures the continued value of the Okanagan tree fruit industry (growers, packinghouses, processors and marketing infrastructure) to the provincial economy through 10,000 acres of high quality orchards
   - supports 1,108 growers and over 2,900 full-time jobs; $41m in annual payroll; $126m spent on goods and services; $236m in economic revenue; $117 m to the provincial GDP, and; $16.5m in federal and provincial income and corporate taxes
   - enhances competitiveness of BC growers through the use of new technology; high density plantings require innovative management and marketing techniques

Summary Financial Outlook

Summary Financial Outlook for the 2002/02 – 2004/05 Service Plan

($000)	2001/02 (latest forecast)	2002/03 (budget)	2003/04 (forecast)	2004/05 (forecast)
Total Revenue	$ 6,161	$ 8,972	$ 9,162	$ 603
Provincial Vote	$ 5,800	$ 8,650	$ 8,650	$ 0
Investment Income	$ 361	$ 322	$ 512	$ 603
Total Expenses	$ 6,131	$ 5,456	$ 6,317	$ 6,079
Replant Program	$ 2,901	$ 3,157	$ 3,372	$ 3,405
Grafting Program	$ 68	$ 185	$ 261	$ 186
TPAP Program	$ 1,459	$ 1,514	$ 2,079	$ 2,335
Replant Advance	$ 423	$ 454	$ 456	$ 0
SIR Program	$ 990	$ 0	$ 0	$ 0
Information Program	$ 135	$ 0	$ 0	$ 0
Administration	$ 155	$ 146	$ 149	$ 153
Operating Income (loss)	$ 30	$ 3,516	$ 2,845	($ 5,476)
Net Income (loss)	$ 4,583	$ 8,099	$10,945	$ 5,469

Key Assumptions	Forecast Risks and Sensitivities
MAFF will be able to meet its budget targets and provide the funding for 2002/03 and 2003/04.	Grower returns will be normal – low returns experienced from the 2000 apple crop had a negative impact on growers ability to undertake replanting. A repeat could reduce the acreage replant projections. This is a moderate risk. Nursery stock is available – nursery stock must be developed three years in advance of planting. Nursery owners and growers must have confidence in replanting to ensure that adequate stocks are available. This is a low risk if growers are confident in the government two year funding commitment.

Major Capital Project Plan

No major capital projects are planned or contemplated.

Statement of Corporate Governance Practices

Duties of the Board

The board of directors, that is appointed by government and reports to the Minister of Agriculture, Food and Fisheries, establishes the OVTFA's overall business direction and defines its long-term priorities, objectives and key strategies.

Corporate Organization

The activities of the OVTFA are directed by the president and chief executive officer (CEO). The CEO is responsible for implementing the policy and direction established by the board of directors. A three-person administration team directs the day-to-day affairs of the OVTFA.

Ethical Guidelines

The board of directors has adopted and follows a Code of Conduct and a conflict of interest policy. Management also has and follows similar ethical guidelines.

Remuneration Policy / Executive Compensation Guidelines

The OVTFA's current practice is to compensate board members at the rates set by Treasury Board. OVTFA staff is compensated at rates comparable to those recommended by the B.C. Public Sector Employers Council/Public Sector Employee Relations Commission.

Directors and Officers

Robert Dawson has been chair of the OVTFA since it was created in 1990. He operates a 100-acre (41-hectare) orchard with his brother in the Cawston area of the Similkameen region. The Dawson orchard is noted for successfully employing high-density plantings. Mr. Dawson is active in industry affairs: in addition to his work with the OVTFA, he serves as a director of the Okanagan Similkameen Growers Cooperative Association and of Sun-Rype Products Ltd.

Lakmar (Al) Klar has owned and managed a family orchard in Keremeos for 30 years. He is also the owner and manager of a successful manufacturing operation in Summerland, with branch operations in Edmonton and the United States. Mr. Klar is active in the Summerland Chamber of Commerce.

Jim Kemes recently retired as manager of the Okanagan Similkameen Growers Cooperative Association. He has also served on the boards of BC Tree Fruits Ltd. and Okanagan Federated Shippers' Association. Mr. Kemes is currently a director of the Oliver Credit Union.

Joan Sarrell grew up on a tree fruit farm in the Oliver area. Today, she is general manager of Southwind Inn in Oliver. Ms. Sarrell has served as vice-president of the British Columbia and Yukon Hotels' Association and the Okanagan-Similkameen Tourist Association.

Sharon Shepherd is a City councillor in Kelowna and a director of the Central Okanagan Regional District. She chairs the Cities Heritage Commission, the Sports Tourism Committee, and the region's Air Quality and Parks committees.

Ken Shukin has been involved in his family's orchard business in Creston since 1975. He chairs the advisory committee of the College of the Rockies Horticulture Technician program.

Ross Husdon, P.Ag., President and Chief Executive Officer has served as president and chief executive officer of the OVTFA since it was created. He is also the chair of the British Columbia Marketing Board and the Farm Practices Board.

How to Contact the OVTFA

For further details about the Okanagan Valley Tree Fruit Authority and its work, please contact us:

Toll-free:	1 800 665-5254
Locally:	250 494-5021
By fax:	250 494-5024
On the web:	http://www.gov.bc.ca/agf
By post:	Research Station Box 6000 Summerland, B.C. V0H 1Z0
In person:	Pacific Agri-Food Research Centre 4200 Highway 97 Summerland, B.C.